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SC No. 06935/60

19 SEP 1960

MEMORANDUM FOR: Assistant Director, National Estimates
ATTENTION: Chief, Far East Staff, ONE
SUBJECT: Economic Aspects of the Departure of Soviet Technicians
from Communist China

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1. This memorandum was prepared in response to [REDACTED] recent verbal request for additional comment on the economic aspects of the current departure of Soviet technicians from Communist China. It sets forth ORR's (a) estimate of the current status of Soviet technicians in Communist China, and (b) analysis of reasons for the recently reported departure of these technicians in unusually large numbers.

a. The Current Status of Soviet Technicians in Communist China.

Reliable observers in Peiping have confirmed that an unusually large number of Soviet citizens left Peiping by train for the USSR during August 1960; some were economic technicians who left before the end of their scheduled tour of duty. It is difficult to go beyond this general statement from currently available information. It is unknown how many of the departures were economic technicians, and how many were Soviet citizens on other business, such as entertainers, teachers, trade officials, and military advisers. The scale of the movement is unclear. Reported estimates range from 350 technicians plus dependents to several thousands presumably including dependents. Late in August, [REDACTED] estimated that a minimum of "something over 1,000" Soviet technicians had left in the previous four weeks and that departures were continuing. It is known that some additional technicians are still coming into China from the USSR. ORR had tentatively estimated before the exodus that there were 1,000 to 2,000 Soviet technicians in China.

A key question is whether technicians who left unexpectedly did so at the unilateral request of either the USSR or Communist China, or as a result of a joint decision that their services were no longer useful or essential. [REDACTED]

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Whether this carefully correct procedure was still being followed in July and August, after the Sino-Soviet political relationship worsened, is unknown.

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b. Possible Reasons for the Exodus.

Three hypotheses have been suggested to account for the exodus. One, the USSR may have been trying to discipline or warn Communist China by removing all but the most essential Soviet technicians. On the other hand Communist China may have taken the initiative, following a political decision to reduce sharply China's reliance on the USSR. Third, there may have been ordinary economic reasons which account for a considerable portion of the departures.

The strained nature of the political relationship between the USSR and Communist China in recent months strongly suggests that the exodus is related to the first hypothesis. So far, in the absence of indications that essential Soviet technicians have been withdrawn, or that severe economic sanctions have been applied, it appears that any Soviet pressure has been gentle, amounting to a warning rather than punishment. So long as the USSR believes that there remains any chance of patching up its quarrel with Communist China, it probably will continue to avoid using heavy-handed coercion, which might or might not work even in the short run when applied against a group as proud as the leadership in Communist China, and which would certainly have long-term adverse effects on the Sino-Soviet relationship. Nevertheless, should the Soviet Union desire to step up the pressure, it could withdraw remaining advisers, stop the flow of blueprints and information on advanced technology, discontinue the training of Chinese workers, students, and researchers in the USSR, cut off shipments of machinery and equipment to China

and purchases from China, and coerce the European Satellites into following suit. The serious effects such measures would have on Communist China's economic development program are described in an article on pp. 1-3 in Part II of the Current Intelligence Weekly Review for 1 September 1960.

There is little firm evidence yet for the second hypothesis -- that the Chinese have made a political decision to get along with the absolute minimum of Soviet technicians, even at substantial economic cost -- but it appears that the theme of "self-reliance" is receiving great emphasis in current Chinese pronouncements. Although the Chinese may be advancing the date at which they will feel independent of much of the Soviet assistance, it does not appear that the Chinese have moved to eject those Soviet experts considered of vital importance.

There is considerable evidence to support the third hypothesis -- of normal economic causation -- which, however, cannot fully account for the large scale of the reported exodus. The USSR delivered an unusually large amount of capital equipment to Communist China in 1959, and many of the technicians who went along to help install the equipment might plausibly have completed their assignments by mid-1960. (Fluctuations in the Soviet aid program to China are analyzed in an attached note). Another relevant factor is the long-standing policy, subscribed to by both the USSR and China of keeping the size of the Soviet advisory group to a minimum, and of turning over responsibilities to qualified Chinese as soon as possible.

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2. In sum, OMR believes that an unusually large, but unknown, number of Soviet technicians left Communist China in August 1960, some on short notice. A plausible explanation is that the USSR has been withdrawing all but the most essential technicians, as a reminder to China of its dependence on the USSR for technological support. We

believe, however, that the departures can, in part, be explained on economic grounds, particularly because of the completion of many aid projects, and that it would be premature to interpret the departures as evidence of a serious reduction of Soviet support of China's economic development.

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OTTO E. OWE
Assistant Director

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Attachment 1.

Note on the Soviet Program to Help Communist China Industrialize and the Departure of Soviet Technicians

1. Recently available statistics on trade between the USSR and Communist China in 1959 shed some light on reports that Soviet economic technicians were departing China in large numbers during August 1960. Although the data does not fully account for reports that a mass exodus has occurred, it indicates that an unusually large number of contracts of Soviet technicians might have been scheduled to terminate in mid-1960.

2. Moscow has published statistics which place a value on Soviet exports of complete factory installations to China in 1959 of 1,599 million rubles, or the equivalent of US \$400 million at the official rate of exchange. This amount is greater than the US \$300 million previously estimated by ORR and is 2.4 times as great as the value of similar exports in 1958. "Complete installations" is a category of trade including machinery used to equip "Soviet-aid" projects -- the electric power plants, steel complexes, oil and chemical refineries, and large machine-building factories that are the backbone of China's industrialization program. A large number of Soviet technicians would have been needed to supervise installation of the \$400 million worth of factory equipment which the Soviet Union shipped to China last year. Because the installation of equipment is a relatively short-term assignment, many of these men presumably would have completed their jobs and be ready to return home by mid-1960.

3. The sharp increase in Soviet exports of complete factory installations to China in 1959, as compared with previous years, is shown in the following tabulation, which lists such exports for 1950-59, in million US dollars:

| | |
|-----------|-----------------------|
| 1950 - 1 | 1955 - 142 |
| 1951 - 32 | 1956 - 217 |
| 1952 - 41 | 1957 - 260 |
| 1953 - 49 | 1958 - 166 |
| 1954 - 93 | 1959 - 400 |
| | 1950-59 total - 1,350 |

4. Whether Communist China was planning to import more or less capital equipment from the USSR in 1960 than in 1959 cannot be definitely determined from available data on trade and industrial construction activity in China. It may be deduced from the past progress of the Soviet aid program and future commitments under it that 1959 was planned to be a peak year. The over-all aid program may be divided into two programs. The first, drawn up in agreements signed between 1950 and 1956, provides for delivery of \$2,025 million worth of equipment for 166 projects to be constructed in China, primarily during its First and Second 5-Year plans (1953-62). A second program, announced in 1958 and early 1959, primarily covers Soviet commitments for support of industrial development in China during its Third 5-Year Plan (1963-67). Under the second program, the USSR promised to deliver to China equipment of unstated value for 47 projects, and \$1,250 million worth of equipment for 78 projects, by 1967. Because of the long lead time needed to plan, design, and prepare sites for large complex factories, probably few of the projects under the second program will be ready to receive much equipment before 1963. Therefore, during the period 1960-62, Soviet capital equipment deliveries to China will consist mostly of obligations remaining under the first program. This remainder was \$675 million at the end of 1959 (\$2,025 million less \$1,350 million), or \$225 million per year if evenly distributed from 1960 through 1962. The above data is recapitulated in the following list of average annual exports of complete factory installations from the USSR to China, actual and scheduled, in million US dollars:

| | |
|---------|------------------------|
| 1950-52 | - 25 average per year |
| 1953-57 | - 142 average per year |
| 1958 | - 166 |
| 1959 | - 400 |
| 1960-62 | - 225 average per year |
| 1963-67 | - 250 average per year |

The average annual volume of deliveries scheduled for 1960-62 could turn out to be higher than \$225 million if deliveries are made under the second program before 1963; similarly, if net additions were later made to the second program, the schedule for 1963-67 could be higher than \$250 million. So far as 1960 is concerned, the above data suggest that the amount of factory installations scheduled for export to China in 1960, and the planned requirements for installation engineers, was substantially less than in 1959.

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